

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Keego Harbor	County Oakland
Fiscal Year End June 30, 2006	Opinion Date September 20, 2006	Date Audit Report Submitted to State November 16, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

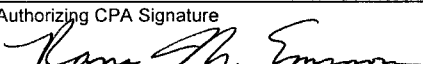
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Post, Smythe, Lutz and Ziel LLP		Telephone Number 734-453-8770	
Street Address 1034 W. Ann Arbor Trail		City Plymouth	State MI
Zip 48170			
Authorizing CPA Signature 	Printed Name Rana M. Emmons, CPA	License Number 22716	

**CITY OF KEEGO HARBOR
Oakland County, Michigan**

AUDITED FINANCIAL REPORT

**For the Fiscal Year Ended
June 30, 2006**

CITY OF KEEGO HARBOR
For the Year Ended June 30, 2006

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CITY OF KEEGO HARBOR
For the Year Ended June 30, 2006

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FINANCIAL SECTION

POST, SMYTHE, LUTZ and ZIEL LLP

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Independent Auditor's Report

September 20, 2006

To the Honorable Mayor and
Members of the City Council
City of Keego Harbor, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Keego Harbor, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Keego Harbor's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Keego Harbor as of June 30, 2006, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

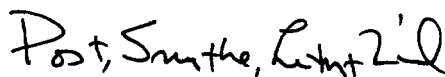
The management's discussion and analysis and the defined benefit pension plans-trend information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board.

Honorable Mayor and
Members of the City Council
City of Keego Harbor, Michigan

We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on them.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Keego Harbor's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully,

A handwritten signature in black ink, appearing to read "Post, Smythe, Lutz & Ziel".

POST, SMYTHE, LUTZ and ZIEL LLP
Certified Public Accountants

Management's Discussion and Analysis

Overview of the Financial Statements

The City's annual report consists of management's discussion and analysis, government-wide financial statements, fund financial statements, notes to the financial statements, required supplemental information, and other supplemental information.

The government-wide financial statements are designed to provide a broad overview of the City's finances. The government-wide financial statements are presented on a full accrual basis, with an emphasis on measuring all economic resources and not just current financial resources, as measured in the individual fund statements. Two government-wide statements are provided.

The statement of net assets, presents information on all of the City's assets and liabilities with the difference shown as net assets. Increases or decreases of net assets from period to period provide useful information on the direction of the City's financial position over time.

The statement of activities provides information on how the government-wide net assets changed during the fiscal year. This statement provides information on income, expenses, and other increases or decreases in net assets.

Following the government-wide statements, individual fund financial statements are provided for the City's major funds with one column provided for nonmajor funds. These statements are grouped into governmental funds, which account for the cost of providing governmental-type services such as public safety and public works; and fiduciary funds, which account for assets held for outside parties.

Reconciliation between the individual fund statements and the government-wide financial statements is provided following the individual fund statements. The differences between the statement of net assets and the fund-based balance sheet are primarily related to inclusion of capital assets and long-term liabilities in the government-wide statement of net assets, which are not included in the fund-based balance sheet. The differences between the statement of activities and the statement of revenues, expenditures, and changes in fund balances primarily relate to the timing of reporting capital outlays and debt principal payments in the fund statements and a difference in the timing of the recognition of certain revenues and expenditures such as bond proceeds, accrued interest, and accrued employee leave time.

Financial Position

The following table shows in a condensed format, the net assets of the City's governmental activities as of June 30, 2006:

City of Keego Harbor - Net Assets

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 4,176,490	\$ 3,452,089
Capital Assets	<u>2,029,635</u>	<u>1,165,261</u>
Total Assets	<u>6,206,125</u>	<u>4,617,350</u>
Long-term liabilities outstanding	3,769,802	1,689,802
Other liabilities	<u>203,090</u>	<u>832,505</u>
Total Liabilities	<u>3,972,892</u>	<u>2,522,307</u>
Net Assets:		
Invested in capital assets, net of related debt	474,635	408,111
Restricted	929,137	1,516,907
Unrestricted	<u>792,244</u>	<u>170,025</u>
Total Net Assets	<u>\$ 2,196,016</u>	<u>\$ 2,095,043</u>

The following table shows the changes of the net assets during the year ended June 30, 2006:

City of Keego Harbor - Change in Net Assets

	Governmental Activities	
	2006	2005
Revenues:		
Program Revenues:		
Charges for Services	\$ 405,056	\$ 404,093
Operating Grants & Contributions	183,829	183,889
Capital Grants & Contributions	40,011	164,412
General Revenues:		
Property Taxes	1,447,328	1,346,670
State Shared Revenues	249,799	258,767
Franchise Fees	30,740	28,852
Unrestricted Investment Earnings	134,624	95,678
Miscellaneous	-	-
Total Revenues	<u>2,491,387</u>	<u>2,482,361</u>
Expenses:		
General Government	479,145	699,601
Public Safety	1,131,194	1,104,364
Public Works	564,559	571,950
Community Development	24,337	51,478
Recreation and Cultural	105,871	79,939
Interest on Long-Term Debt	85,308	70,800
Total Expenses	<u>2,390,414</u>	<u>2,578,132</u>
Change in Net Assets	<u>\$ 100,973</u>	<u>\$ (95,771)</u>

The City had an increase of \$100,973 in net assets in its governmental activities for the fiscal year ended June 30, 2006, compared to a \$95,771 decrease for the fiscal year ended June 30, 2005. Contributing to additional revenue is an increase in property tax revenue due to new construction & an increase in interest earnings due to timely investing. General Government expenses decreased substantially.

Governmental Activities

Over the last few years, the City has experienced steady growth in tax revenues accompanied by larger growth in expenses. History has taken a turn for the better: General Fund expenditures exceed revenue in 05/06 by only \$8,558, the smallest amount in several years. General Fund expenditures in 2005 exceeded revenue by \$308,738 and in 2004 General Fund expenditures exceeded revenue by \$187,593. In fact, 05/06 revenues would have exceeded expenses if the City had not incurred a \$10,000 insurance expense which was not expected.

The General Fund fund balance has increased by \$150,842, from \$208,072 to \$358,914 due to the net effect of Operating Transfers In and out. The increase for 2006 is due to City Council approval of a transfer in the amount of \$160,000 from the Capital Project Fund to the General Fund.

The fee schedules (charges for services) continue to be adjusted to better cover actual costs. In fiscal year 03/04, the City's budget lacked line item detail. Since 04/05, a more detailed history has been developed prospectively. State-shared revenues, statutorily designated to support local community services, have historically accounted for approximately 20 percent of the City's general operating revenues. State Shared Revenue has been consistently retained by the State of Michigan for the last several years for use in funding State expenditures. This fiscal year, the City received \$14,482 less in State-shared revenues than in fiscal year 2005, a 6% decrease. State Shared revenue has decreased from \$323,993 in 2000 to \$254,585 in 2005, a decrease of \$69,408, a 21% decrease. With a concerted effort to maximize the City's investment earnings, the City managed to earn \$33,976 from its General Fund investments.

The City of Keego Harbor has a healthy General Fund cash surplus (\$358,914) sufficient to meet limited shortfalls in current year revenues or increases in current year expenditures. The 2005/2006 fiscal year ended with a 17.45% ratio of fund balance to expenditures.

Analysis of Individual Funds

Of the City's governmental funds, the General, Major Streets, TIFA Capital Improvement, Capital Projects, and TIFA Funds account for all significant expenditures.

The General Fund ended the fiscal year with an increase to its fund balance in the amount of \$150,842.

Capital Assets

During fiscal year 2006, capital asset purchases included two police vehicles and land.

Long-term Debt

At the end of the current fiscal year, the City had total bond and Installment Purchase Loan debt outstanding of \$3,710,000. The City's total debt increased by \$2,080,000 during the current fiscal year due to the proposed New City Hall/Police Department Project approved by City Council.

Economic Factors

Keego Harbor is experiencing significant redevelopment in both residential and commercial sectors. Keego Harbor, like most seasoned cities depends on growth in property values to offset growth in expenditures. Property taxes account for 63% of General Fund revenues. The taxable value of real property increased 13 percent from fiscal 2005 to 2006.

A residential and commercial redevelopment friendly atmosphere will be essential to fostering appropriate growth. The City received an important endorsement of its efforts, in this regard, when it was granted the "Main Street" designation. This multi-year program provides guidance and technical assistance for the redevelopment of our downtown.

The City has budgeted for pension contributions, employee and retiree health care costs, and general insurance costs in the 2006-2007 fiscal year based on the best information known at the time. We experienced a 9.5% increase in health care costs this past fiscal year.

The City has experienced no specific events which it believes will materially impact the finances of the City. However, certain long-term trends, such as capped property tax values and shrinking State-shared revenues, will have a direct impact on the City's ability to continue current service levels, unless the City experiences significant redevelopment of its downtown and aging housing stock.

Contacting the City's Financial Management

This audit of the revenues and expenditures of the City is designed to depict the financial health of the City and demonstrate the uses of City resources. The audit also provides financial information to the City's investors and creditors.

If you have any questions about this report contact the City Manager or City Finance Director/Treasurer at City Hall, P.O. Box 665, Keego Harbor, Michigan 48320-0665.

BASIC FINANCIAL STATEMENTS

CITY OF KEEGO HARBOR
Statement of Net Assets
Governmental Activities
June 30, 2006

ASSETS

Cash and Cash Equivalents	\$ 3,160,741
Restricted Assets - Cash	850,396
Receivables (net of allowance for uncollectibles):	
Taxes	20,602
Due from Other Governmental Units	60,825
Prepaid Expenses	83,926
Capital Assets (Net of Accumulated Depreciation):	
Nondepreciable	745,901
Depreciable	1,283,734
Total Assets	<u>6,206,125</u>

LIABILITIES

Accounts Payable	61,048
Accrued Liabilities	37,217
Accrued Interest Payable	32,185
Deposits	89,253
Deferred Revenue	20,604
Noncurrent Liabilities:	
Bonds Payable, due within one year	85,000
Bonds Payable, due in more than one year	3,625,000
Compensated Absences, due within one year	19,137
Compensated Absences, due in more than one year	40,665
Total Liabilities	<u>4,010,109</u>

NET ASSETS

Invested in Capital Assets, net of related debt	474,635
Restricted for:	
Streets and Highways	764,025
Debt Service	152,513
Beautification	1,062
Police Department Community Events	7,372
Police Department Drug Forfeiture	2,308
Carillon	1,857
Unrestricted	792,244
Total Net Assets	<u>\$ 2,196,016</u>

CITY OF KEEGO HARBOR
Statement of Activities
For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
Primary Government:					
Governmental Activities:					
General Government	\$ 479,145	\$ 124,118	\$ 3,860	\$ -	\$ (351,167)
Public Safety	1,131,194	205,090	19,500	-	(906,604)
Public Works	564,559	49,927	151,781	20,011	(342,840)
Community Development	24,337	11,174	5,937	20,000	12,774
Recreation and Cultural	105,871	14,747	2,751	-	(88,373)
Interest on Long-Term Debt	85,308	-	-	-	(85,308)
Total Governmental Activities	\$ 2,390,414	\$ 405,056	\$ 183,829	\$ 40,011	(1,761,518)
General Revenues:					
Property Taxes					1,447,328
State Shared Revenue					249,799
Franchise Taxes					30,740
Unrestricted Investment Earnings					134,624
Total General Revenues and Transfers					1,862,491
Change in Net Assets					100,973
Net Assets - Beginning					2,095,043
Net Assets - Ending					\$ 2,196,016

CITY OF KEEGO HARBOR

Balance Sheet

Governmental Funds

June 30, 2006

	General Fund	Major Streets Fund	TIFA Fund	TIFA Capital Improvements Fund
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 403,702	\$ 612,840	\$ 419,345	\$ -
Restricted Assets - Cash	-	-	-	-
Receivables (net of allowance for uncollectibles):				
Taxes	20,602	-	-	-
Due from Other Funds	21	-	-	-
Due from Other Units	36,856	16,702	-	-
Prepaid Expenditures	80,901	-	-	-
Total Assets	<u>\$ 542,082</u>	<u>\$ 629,542</u>	<u>\$ 419,345</u>	<u>\$ -</u>
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Accounts Payable	\$ 37,936	\$ 226	\$ -	\$ -
Accrued and Other Liabilities	35,375	192	-	-
Due to Other Funds	-	51	-	-
Deposits	89,253	-	-	-
Deferred Revenue	20,604	-	-	-
Total Liabilities	<u>183,168</u>	<u>469</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Reserved for:				
Prepaid Expenditures	80,901	-	-	-
Debt Service	-	-	-	-
Construction	-	-	-	-
Unreserved for:				
General Fund	278,013	-	-	-
Special Revenue Funds	-	629,073	419,345	-
Capital Project Funds	-	-	-	-
Total Fund Balances	<u>358,914</u>	<u>629,073</u>	<u>419,345</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 542,082</u>	<u>\$ 629,542</u>	<u>\$ 419,345</u>	<u>\$ -</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Net Assets of Governmental Activities

TIFA City Hall/Police Construction Fund	City Hall/ Police Construction Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 1,163,068	\$ 561,786	\$ 3,160,741
850,396	-	-	850,396
-	-	-	20,602
-	-	36	57
-	-	7,267	60,825
-	-	3,025	83,926
<u>850,396</u>	<u>1,163,068</u>	<u>572,114</u>	<u>4,176,547</u>

\$ 21,151	\$ 1,667	\$ 68	\$ 61,048
-	-	1,650	37,217
-	-	6	57
-	-	-	89,253
-	-	-	20,604
<u>21,151</u>	<u>1,667</u>	<u>1,724</u>	<u>208,179</u>

-	-	3,025	83,926
-	-	152,513	152,513
829,245	1,161,401	-	1,990,646
-	-	-	278,013
-	-	147,551	1,195,969
-	-	267,301	267,301
<u>829,245</u>	<u>1,161,401</u>	<u>570,390</u>	<u>3,968,368</u>
<u>\$ 850,396</u>	<u>\$ 1,163,068</u>	<u>\$ 572,114</u>	

2,029,635

(3,801,987)

\$ 2,196,016

CITY OF KEEGO HARBOR
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	<u>General</u>	<u>Major Streets Fund</u>	<u>TIFA Fund</u>	<u>TIFA Capital Improvements Fund</u>
<u>Revenues</u>				
Property Taxes	\$ 1,290,223	\$ -	\$ 105,876	\$ -
Licenses and Permits	3,142	-	-	-
Intergovernmental:				
Federal, State and Local	280,812	101,151	-	-
Charges for Services	292,245	-	-	-
Fines and Forfeitures	46,305	-	-	-
Franchise Fees	30,740	-	-	-
Interest	33,976	17,864	25,955	4,128
Other	70,927	699	-	20,000
Total Revenues	<u>2,048,370</u>	<u>119,714</u>	<u>131,831</u>	<u>24,128</u>
<u>Expenditures</u>				
Current:				
General Government	441,756	-	-	-
Public Safety	1,118,534	-	-	-
Community Development	24,337	-	-	-
Public Works	365,416	30,902	31,049	5,911
Recreation and Cultural	96,049	-	1,650	-
Other	10,836	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest and Other Charges	-	-	-	-
Capital Outlay	-	-	-	637,020
Total Expenditures	<u>2,056,928</u>	<u>30,902</u>	<u>32,699</u>	<u>642,931</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(8,558)</u>	<u>88,812</u>	<u>99,132</u>	<u>(618,803)</u>
<u>Other Financing Sources (Uses)</u>				
Transfers In	160,000	-	-	-
Transfers Out	(600)	(25,288)	(30,000)	(36,700)
Bond Proceeds	-	-	-	-
Loan Proceeds	-	-	-	-
Total Other Financing Sources and Uses	<u>159,400</u>	<u>(25,288)</u>	<u>(30,000)</u>	<u>(36,700)</u>
Net Change in Fund Balances	150,842	63,524	69,132	(655,503)
Fund Balances - Beginning	<u>208,072</u>	<u>565,549</u>	<u>350,213</u>	<u>655,503</u>
Fund Balances - Ending	<u>\$ 358,914</u>	<u>\$ 629,073</u>	<u>\$ 419,345</u>	<u>\$ -</u>

TIFA City Hall/Police Construction Fund	City Hall/ Police Construction Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 51,229	\$ 1,447,328
-	-	-	3,142
-	-	52,151	434,114
-	-	-	292,245
-	-	-	46,305
-	-	-	30,740
10,407	17,543	24,751	134,624
-	-	11,263	102,889
<u>10,407</u>	<u>17,543</u>	<u>139,394</u>	<u>2,491,387</u>
-	-	25,437	467,193
-	-	2,062	1,120,596
-	-	-	24,337
-	-	87,626	520,904
-	-	4,358	102,057
-	-	5,711	16,547
-	-	75,000	75,000
-	-	70,930	70,930
145,862	16,142	118,822	917,846
<u>145,862</u>	<u>16,142</u>	<u>389,946</u>	<u>3,315,410</u>
<u>(135,455)</u>	<u>1,401</u>	<u>(250,552)</u>	<u>(824,023)</u>
-	-	122,888	282,888
(30,300)	-	(160,000)	(282,888)
995,000	-	-	995,000
-	1,160,000	-	1,160,000
<u>964,700</u>	<u>1,160,000</u>	<u>(37,112)</u>	<u>2,155,000</u>
829,245	1,161,401	(287,664)	1,330,977
-	-	858,054	2,637,391
<u>\$ 829,245</u>	<u>\$ 1,161,401</u>	<u>\$ 570,390</u>	<u>\$ 3,968,368</u>

CITY OF KEEGO HARBOR
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 1,330,977
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.

864,374

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

(2,094,378)

Change in net assets in governmental activities	\$ 100,973
---	------------

100,973

CITY OF KEEGO HARBOR
Fiduciary Fund
Statement of Assets and Liabilities
June 30, 2006

	Tax Collection Agency Fund
	<hr/>
<u>ASSETS</u>	
Cash	\$ 1
	<hr/>
<u>LIABILITIES</u>	
Due to Other	\$ 1
	<hr/>

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Keego Harbor, Michigan is governed by an elected five-member council. The accompanying financial statements present the City and its component unit, the City of Keego Harbor Tax Increment Financing Authority, an entity for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations.

The City of Keego Harbor Tax Increment Financing Authority is governed by a board that is appointed by the Keego Harbor City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and expand a road on behalf of the City's Major Streets Fund.

Jointly Governed Organization

The City is a member of the Tri-City Fire Department, which provides fire protection services to the residents of the City of Keego Harbor, the City of Sylvan Lake, and the City of Orchard Lake. The Tri-City Fire Department along with the participating communities have entered into an agreement with the West Bloomfield Township Fire Department to provide fire and emergency services. During the current year, the City contributed approximately \$203,963 to the Tri-City Fire Department. Complete financial statements for the Tri-City Fire Department can be obtained from the administrative offices at 3300 Orchard Lake Road, Orchard Lake, Michigan.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. The *governmental activities* shown on the government-wide financial statements are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenue*.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. Government-Wide and Fund Financial Statements – Continued

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Governmental Funds

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund is a special revenue fund used to account for the repair, maintenance, and construction of the City's major streets as identified by the State of Michigan Department of Transportation.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

Governmental Funds - Continued

The Tax Increment Financing Authority Fund (TIFA) accounts for the financing of a road on behalf of the City's Major Streets Fund, and debt related to these projects and the new city hall/police facility construction. The activity is approved by the TIFA Board.

The TIFA Capital Improvements Fund accounts for construction activity funded by the 2004 General Obligation Capital Improvement Bonds.

The TIFA City Hall/Police Construction Fund accounts for construction activity funded by the 2006 General Obligation Capital Improvement Bonds.

The City Hall/Police Construction Fund accounts for construction activity of the new city hall/police department building which is funded by an installment purchase loan issued during fiscal year 2006.

Additionally, the City reports the following fund types:

Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Debt Service Funds are used to account for the proceeds of principal, interest, and expenditures in connection with certain long-term debt obligations.

Capital Project Funds are used to account for capital improvement, equipment purchases, and construction activity funded by general revenues of the City.

Agency Funds are used to account for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements, and when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper of certain investment grades, and deposits of Michigan commercial banks. Investments for the City, as well as for its component units, are recorded at fair value.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. non-current portion of interfund loans). All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

3. Restricted Assets

The City's remaining bond proceeds are set aside for various upcoming debt service payments. These amounts have been classified as restricted.

4. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

5. Capital Assets

Capital assets, which include property, plant, equipment, vehicles and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Property, plant and equipment of the primary government, as well as the component unit, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	25-40
Furnishings, Fixtures, and Equipment	10-40
Vehicles	10-20

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities and Net Assets or Equity - Continued

6. Compensated Absences

In accordance with contracts negotiated with the various employee groups of the City, along with the City's employee policy manual, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All sick and vacation pay is accrued when earned in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Statement of Net Assets.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2006

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet And the Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$3,801,987 difference are as follows:

General Obligation Bonds Payable	\$ 2,550,000
Installment Loan Payable	1,160,000
Accrued Interest Payable	32,185
Compensated Absences Payable	<u>59,802</u>
	<u>\$ 3,801,987</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$864,374 difference are as follows:

Capital Outlay	\$ 917,846
Depreciation Expense	<u>(53,472)</u>
	<u>\$ 864,374</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets." The details of this \$2,094,378 difference are as follows:

Principal on G.O. Bonds	\$ 75,000
Accrued Interest Payable	(14,378)
Issuance of New Debt	<u>(2,155,000)</u>
	<u>\$ (2,094,378)</u>

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2006

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (Uniform Budgeting Act). The following is a summary of the requirements of this act:

- a. Budgets must be adopted for the General and Special Revenue Funds.
- b. Budgets must be balanced.
- c. Budgets must be amended as necessary.
- d. Public hearings must be held prior to adoption.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget appropriation prior to being incurred.

The City follows these procedures in establishing the budgetary data reflected in these financial statements:

1. The City Charter requires one regular council meeting per month. Not later than the regular meeting in May, a proposed operating budget must be submitted to the City Council for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and means of financing them for the upcoming year.
2. A public hearing and adoption of the budget is required by the regular meeting in May.
3. Not later than the regular meeting in May, the tax rate must be set and the budget is legally enacted through passage of a budget resolution (general appropriation act).
4. Formal budgetary integration is employed as a management control device for the General and Special Revenue Funds. Budgets for these funds are prepared and adopted on a basis consistent with generally accepted accounting principles (GAAP). The General Fund budget is adopted at the activity level and the budgets for the Special Revenue Funds are adopted at the fund level.
5. Budget appropriations lapse at year end.
6. The City Council may authorize supplemental appropriations (budget amendments) during the year. In fiscal year 2006, several budget amendments were made and are reflected in the financial statements.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2006

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

B. Compliance with P.A. 621 of 1978

1. Deficit Fund Balance

The City has no deficit fund balances as of June 30, 2006.

2. Excess of Expenditures Over Appropriations in Budgetary Funds

The budget for the General Fund is adopted at the activity level and the budgets for the Special Revenue Funds are adopted at the fund level. Expenditures in excess of budget appropriations are as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess Expenditures Over Appropriations</u>
General Fund:			
Legal and Audit	\$ 76,493	\$ 86,488	\$ 9,995
Finance/Treasurer	103,300	103,837	537
Building and Grounds	50,921	51,163	242
Police	668,327	677,729	9,402
Inspection Services	235,287	236,842	1,555
Zoning	7,074	7,472	398
Parks	40,762	41,996	1,234
Local Street Fund	84,900	86,973	2,073
Police Community Events Fund	7,620	7,773	153

C. Public Act 245 of 1999 Compliance

In accordance with the State Construction Code Act, Public Act 245 of 1999, the City must account for cumulative revenues over or under expenditures generated by the City's building department from January 1, 2000 and forward.

The cumulative amounts as of June 30, 2006 are as follows:

Cumulative Shortfall at June 30, 2005	<u>\$ (90,664)</u>
Fees Collected in Fiscal Year 2006	145,683
Expenditures in Fiscal Year 2006	<u>(236,842)</u>
Revenues Over (Under) Expenditures	<u>(91,159)</u>
Cumulative Shortfall at June 30, 2006	<u><u>\$ (181,823)</u></u>

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Under State law, the City is permitted to invest in deposits with Michigan commercial banks, savings and loans and credit unions, obligations of the U.S. Treasury, and corporate bonds and commercial paper with certain investment grades.

The following information, as required by the Governmental Accounting Standards Board Statement number 40 is presented, regarding the City's deposits and investments:

Custodial Credit Risk. In the event of a bank failure, the City's deposits may not be recovered. Neither State law nor the City's investment policy requires consideration of custodial credit risk. As of June 30, 2006, the City's book balance of its deposits was \$4,010,788; the total book balance was \$4,011,138, due to \$350 in cash on hand. The bank balance was \$4,086,287 which was exposed to custodial credit risk, as follows:

	<u>Bank Balance</u>
Insured by F.D.I.C.	\$ 564,759
Uninsured and Uncollateralized	<u>3,521,528</u>
Total	<u>\$4,086,287</u>

A reconciliation of cash as it appears on the financial statements follows:

Cash and Cash Equivalents per:

Statement of Net Assets	\$3,160,741
Restricted Assets-Statement of Net Assets	850,396
Fiduciary Fund – Statement of Assets and Liabilities	<u>1</u>
Total	<u>\$4,011,138</u>

Credit Risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices.

Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City's deposits and investments consisted of the following:

<u>Deposits and Investments</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Savings and Checking Accounts	\$ 69,077	Demand
Pooled Investments(Share price=\$1)	2,000,010	Demand
Certificates of Deposits-Less than one year	1,819,200	93 Days
Certificates of Deposits-More than one year	<u>198,000</u>	1661 Days
	<u>\$4,086,287</u>	

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS – Continued

A. Deposits and Investments – Continued

Concentration of Credit Risk. The City's investment policy places no limit on the amount the City may invest in any one issuer. The City has no more than 5 percent of its investments in any one financial institution.

B. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, not depreciated:				
Land	\$ 151,901	\$ 594,000	\$ -	\$ 745,901
Capital Assets, being depreciated:				
Infrastructure	854,544	95,733	-	950,277
Building and Improvements	94,821	169,113	-	263,934
Furnishings, Fixtures, and Equipment	142,805	30,018	-	172,823
Vehicles	152,884	28,982	-	181,866
	<u>1,245,054</u>	<u>323,846</u>	<u>-</u>	<u>1,568,900</u>
Less: Accumulated Depreciation:				
Infrastructure	-	(21,363)	-	(21,363)
Building and Improvements	(59,203)	(2,533)	-	(61,736)
Furnishings, Fixtures, and Equipment	(79,816)	(12,180)	-	(91,996)
Vehicles	(92,675)	(17,396)	-	(110,071)
	<u>(231,694)</u>	<u>(53,472)</u>	<u>-</u>	<u>(285,166)</u>
Governmental Activities Capital Assets, net	\$ <u>1,165,261</u>	\$ <u>864,374</u>	\$ <u>-</u>	\$ <u>2,029,635</u>

Depreciation expense was charged on the Statement of Activities as follows:

General Government	\$ 1,116
Public Safety	4,887
Public Works	43,655
Recreation and Cultural	3,814
	<u>\$ 53,472</u>

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS - Continued

C. Interfund Receivables, Payables and Transfers

1. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2006, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Major Street Fund	\$ 15
General Fund	Local Street Fund	6
Local Street Fund	Major Street Fund	36
		<u>\$ 57</u>

Interfund balances represent miscellaneous amounts not transferred before year end.

2. Interfund Transfers

<u>Transfers Out:</u>	<u>Transfers In:</u>	<u>Total</u>
Capital Projects Fund	General Fund	\$ 160,000
General Fund	Beautification Fund	600
Major Streets Fund	Local Streets Fund	25,288
TIFA Fund	TIFA Debt Service Fund	30,000
TIFA Capital Improv Fund	TIFA Debt Service Fund	36,700
TIFA City Hall/Police Construct	TIFA City Hall/Police Debt	30,300
		<u>\$ 282,888</u>

Transfer from the Capital Projects Fund to the General Fund represents a transfer approved by City Council for general operating purposes.

Transfers to the Beautification Fund from the General Fund was to fund current year expenditures.

Transfer to the Local Streets Fund from the Major Streets Fund is to fund current year local street projects.

Transfers to the Debt Service Funds are funding for semi-annual debt payments.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS - Continued

D. Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2006:

	<u>Interest Rates</u>	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>	<u>Due Within One Year</u>
Governmental Activities:						
General Obligation Bonds:						
Tri-City Fire Station Bonds						
Issue Amount: \$460,000						
Maturing through 2009	5.25%	\$ 230,000	\$ -	\$ 40,000	\$ 190,000	\$ 40,000
Capital Improvement Bonds						
Issue Amount: \$1,400,000						
Maturing through 2022	3.50-4.60%	1,400,000	-	35,000	1,365,000	45,000
Tax Development Bonds						
Issue Amount: \$995,000						
Maturing through 2026	4.50-4.80%	-	995,000	-	995,000	-
Total General Obligation Bonds		1,630,000	995,000	75,000	2,550,000	85,000
Installment Purchase Loan						
Issue Amount: \$1,160,000						
Maturing through 2020	4.31%	-	1,160,000	-	1,160,000	-
Compensated Absences		59,802	-	-	59,802	19,137
		<u>\$ 1,689,802</u>	<u>\$ 2,155,000</u>	<u>\$ 75,000</u>	<u>\$ 3,769,802</u>	<u>\$ 104,137</u>

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS - Continued

D. Long-Term Debt – Continued

The annual debt service requirements to maturity for general obligation bonds outstanding as of June 30, 2006 are as follows:

<u>Year Ended</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 85,000	\$ 199,375
2008	100,000	163,448
2009	147,079	158,327
2010	201,050	152,061
2011	187,332	142,482
2012-2016	1,119,895	576,255
2017-2021	1,344,644	313,174
2022-2026	525,000	76,710
	<u>\$ 3,710,000</u>	<u>\$ 1,781,832</u>

E. Reserved Fund Balance

A detailed description of fund balance reservations and designations (for all governmental fund types) at June 30, 2006, is presented below:

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>
Reserved for:				
Prepaid Expenditures	\$ 80,901	\$ -	\$ -	\$ 3,025
Debt Service	-	-	152,513	-
Construction	-	-	-	1,990,646
Total Reserved	80,901	-	152,513	1,993,671
Unreserved:				
Designated for Subsequent Years Expenditures	-	78,880	-	71,747
Undesignated	278,013	1,117,089	-	195,554
Total Fund Balance	<u>\$ 358,914</u>	<u>\$ 1,195,969</u>	<u>\$ 152,513</u>	<u>\$ 2,260,972</u>

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2006

IV. DETAILED NOTES ON ALL FUNDS - Continued

F. Property Taxes

Property taxes are assessed as of each December 31. The City tax levy is billed on July 1 of the following year. Taxes are considered delinquent on July 31, at which time the applicable property is subject to lien and penalty and interest is assessed. The maximum authorized operating levy for the City is 20 mills. The City's tax levy for the 2005 tax roll is as follows (tax rate per \$1,000 of assessed valuation):

General Operating	12.5885
Publicity	.5210
Debt - Voted	<u>.5850</u>
Total	<u>13.6945</u> mills

V. OTHER INFORMATION

A. Employee Retirement Systems and Plans

Municipal Employees Retirement System Defined Benefit Plan

1. Plan Description

The City contributes to the Michigan Municipal Employees' Retirement System (MMERS), which is an agent multiple employer retirement system that covers all full time employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by a certain percentage based on the benefit program in effect as of the date of termination of membership times the final average compensation (FAC). The most recent period for which actuarial data was available was for the actuarial valuation as of December 31, 2005.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of the State of Michigan (MSA 5.333(a); MCLA 46.12(a)). MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Council. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2006

V. OTHER INFORMATION - Continued

A. Employee Retirement Systems and Plans - Continued

Municipal Employees Retirement System Defined Benefit Plan - Continued

2. Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and personnel policy. The City is required to contribute at an actuarially determined rate; the current rate was a percentage of annual compensation at December 31, 2003 as follows:

General	17.52%
Police - Fire	16.36%

3. Annual Pension Cost

During the fiscal year ended June 30, 2006, the City's contributions totaling \$100,233 and employees' contributions totaling \$17,472 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2003.

The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Fiscal Year Ended June 30,	<u>Trend Information</u>		Percentage of APC Contributed	Net Pension Obligation
	Valuation Date Dec. 31	Annual Pension Cost (APC)		
2002	1999	\$ 31,551	100%	-0-
2003	2000	49,576	100%	-0-
2004	2001	96,164	100%	-0-
2005	2002	96,472	100%	-0-
2006	2003	100,233	100%	-0-

The information presented above was determined as part of the actuarial valuations at the dates indicated.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2006

V. OTHER INFORMATION - Continued

B. Post Retirement Health Care Benefits

The City provides health care insurance coverage to all eligible full-time employees who retire from the City, in accordance with labor contracts and City policy. Currently 3 retirees are covered by this plan. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. These benefits are expensed in the year paid, on a pay-as-you-go basis. Total expenditures were \$10,416 for the year ended June 30, 2006.

C. Risk Management

The City is a member of the Michigan Municipal Risk Management Authority for its general liability coverage and a member of the Michigan Municipal Workers Compensation Fund for its workers compensation coverage. The City pays annual premiums to the pools. The pools are self-sustaining through member premiums, and each carries reinsurance through commercial companies for claims in excess of the pool loss reserve fund.

In the event that a single loss should exceed the amount of protection afforded by the pool loss reserve fund, reinsurance, or other insurance carried by the pools, or in the event that a series of losses should deplete or exhaust the loss reserve fund and reinsurance, the payment of valid losses shall be the obligation of the individual member or members of the respective pool against whom the claim was made.

No such event has occurred with the City and the pools to which it belongs in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KEEGO HARBOR
Required Supplementary Information – (Unaudited)
Defined Benefit Pension Plans – Trend Information
For the Year Ended June 30, 2006

Municipal Employees Retirement System
Schedule of Funding Progress

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u>	<u>Funded</u> <u>Ratio</u>	<u>Covered</u> <u>Payroll</u>	<u>UAAL as a</u> <u>Percent of</u> <u>Covered Payroll</u>
12/31/01	\$1,261,021	\$1,472,387	\$211,366	86%	\$528,156	40%
12/31/02	1,278,011	1,550,351	272,340	82	555,463	49
12/31/03	1,390,051	2,027,587	637,536	69	567,030	112
12/31/04	1,529,043	2,266,651	737,608	67	582,755	127
12/31/05	1,723,202	2,475,745	752,543	70	574,952	131

Additional information as of December 31, 2005, the latest actual valuation, follows:

Actuarial cost method	Entry age normal cost
Amortization method	Level percent
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.50% - 12.90%
Includes inflation at 4.5%	
Cost of living adjustments	None

CITY OF KEEGO HARBOR
General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
Property Taxes	\$ 1,286,855	\$ 1,289,793	\$ 1,290,223	\$ 430
Licenses and Permits	2,600	3,143	3,142	(1)
Intergovernmental - Federal/CDBG	5,000	5,900	5,937	37
Intergovernmental - State	266,540	254,589	254,585	(4)
Intergovernmental - County	16,535	20,291	20,290	(1)
Charges for Services	299,590	297,901	292,245	(5,656)
Fines and Forfeitures	20,000	46,305	46,305	-
Franchise Fees	28,900	30,740	30,740	-
Interest	15,000	33,200	33,976	776
Other	28,160	56,822	70,927	14,105
Total Revenues	1,969,180	2,038,684	2,048,370	9,686
Expenditures:				
General Government:				
City Council	10,600	9,942	9,753	189
City Manager	122,200	85,506	83,447	2,059
Elections	3,025	2,959	2,946	13
Legal and Audit	82,175	76,493	86,488	(9,995)
Assessing	22,765	22,895	22,894	1
Clerk	64,070	74,830	73,473	1,357
Information Technology	10,740	7,421	7,420	1
Board of Review	500	337	335	2
Finance/Treasurer	103,310	103,300	103,837	(537)
Building and Grounds	90,100	50,921	51,163	(242)
Total General Government	509,485	434,604	441,756	(7,152)
Public Safety:				
Police	647,915	668,327	677,729	(9,402)
Fire	204,000	203,963	203,963	-
Inspection Services	199,540	235,287	236,842	(1,555)
Total Public Safety	1,051,455	1,107,577	1,118,534	(10,957)
Community Development:				
CDBG	5,050	5,643	5,642	1
Main Street	-	2,885	2,876	9
Planning	22,200	13,817	8,347	5,470
Zoning	6,200	7,074	7,472	(398)
Total Community Development	33,450	29,419	24,337	5,082
Public Works:				
Department of Public Works	266,745	326,107	322,091	4,016
Street Lighting	37,000	43,330	43,325	5
Total Public Works	303,745	369,437	365,416	4,021

(Continued)

CITY OF KEEGO HARBOR
General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Expenditures: (Continued)				
Recreation and Cultural:				
Parks	\$ 32,800	\$ 40,762	\$ 41,996	\$ (1,234)
Recreation	2,350	19,414	17,688	1,726
Library	36,365	36,365	36,365	-
Total Recreation and Cultural	71,515	96,541	96,049	492
Other Functions:				
Retiree Health Insurance	12,000	11,756	10,836	920
Tax Tribunals	-	4,157	-	4,157
Total Other Functions	12,000	15,913	10,836	5,077
Total Expenditures	1,981,650	2,053,491	2,056,928	(3,437)
Excess (Deficiency) of Revenues Over Expenditures	(12,470)	(14,807)	(8,558)	6,249
Other Financing Sources (Uses):				
Operating Transfers In	-	160,000	160,000	-
Operating Transfers Out	(600)	(600)	(600)	-
Total Other Financing Sources (Uses)	(600)	159,400	159,400	-
Net Change in Fund Balance	(13,070)	144,593	150,842	6,249
Fund Balance - July 1	208,072	208,072	208,072	-
Fund Balance - June 30	\$ 195,002	\$ 352,665	\$ 358,914	\$ 6,249

CITY OF KEEGO HARBOR
Major Streets Special Revenue Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
Revenues:				
State	\$ 70,000	\$ 84,450	\$ 101,151	\$ 16,701
Interest	8,000	16,000	17,864	1,864
Other	525	705	699	(6)
Total Revenues	<u>78,525</u>	<u>101,155</u>	<u>119,714</u>	<u>18,559</u>
Expenditures:				
Highways and Streets:				
General Administration	24,500	10,200	10,115	85
Routine Maintenance	5,050	11,920	9,587	2,333
Traffic Services	1,000	2,410	2,577	(167)
Winter Maintenance	10,575	7,395	7,373	22
Other	-	1,250	1,250	-
Total Expenditures	<u>41,125</u>	<u>33,175</u>	<u>30,902</u>	<u>2,273</u>
Excess (Deficiency) of Revenues Over Expenditures	37,400	67,980	88,812	20,832
Other Financing Uses:				
Operating Transfers Out	<u>-</u>	<u>(25,255)</u>	<u>(25,288)</u>	<u>(33)</u>
Net Change in Fund Balance	37,400	42,725	63,524	20,799
Fund Balance - July 1	<u>565,549</u>	<u>565,549</u>	<u>565,549</u>	<u>-</u>
Fund Balance - June 30	<u>\$ 602,949</u>	<u>\$ 608,274</u>	<u>\$ 629,073</u>	<u>\$ 20,799</u>

CITY OF KEEGO HARBOR
TIFA Special Revenue Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
Revenues:				
Property Taxes	\$ 101,940	\$ 105,876	\$ 105,876	\$ -
Interest	7,000	25,200	25,955	755
Total Revenues	<u>108,940</u>	<u>131,076</u>	<u>131,831</u>	<u>755</u>
Expenditures:				
Public Works	4,700	31,105	31,049	56
Park Facilities	-	1,651	1,650	1
Total Expenditures	<u>4,700</u>	<u>32,756</u>	<u>32,699</u>	<u>57</u>
Excess (Deficiency) of Revenues Over Expenditures	104,240	98,320	99,132	812
Other Financing Uses:				
Operating Transfers Out	<u>-</u>	<u>(30,000)</u>	<u>(30,000)</u>	<u>-</u>
Net Change in Fund Balance	104,240	68,320	69,132	812
Fund Balance - July 1	<u>350,213</u>	<u>350,213</u>	<u>350,213</u>	<u>-</u>
Fund Balance - June 30	\$ <u><u>454,453</u></u>	\$ <u><u>418,533</u></u>	\$ <u><u>419,345</u></u>	\$ <u><u>812</u></u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF KEEGO HARBOR
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2006

	Special Revenue Funds			
	Local Street	Beautification	Police Dept. Community Events	Carillon
<u>Assets</u>				
Cash and Cash Equivalents	\$ 129,373	\$ 1,062	\$ 9,680	\$ 1,857
Due from State	7,267	-	-	-
Due from Other Funds	36	-	-	-
Prepaid Expenditures	-	-	-	-
Total Assets	<u>\$ 136,676</u>	<u>\$ 1,062</u>	<u>\$ 9,680</u>	<u>\$ 1,857</u>
<u>Liabilities and Fund Balance</u>				
Liabilities:				
Accounts Payable	\$ 68	\$ -	\$ -	\$ -
Accrued Liabilities	1,650	-	-	-
Due to Other Funds	6	-	-	-
Total Liabilities	<u>1,724</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance:				
Reserved for Debt	-	-	-	-
Reserved for Prepaid Expenditures	-	-	-	-
Designated for Subsequent Years Expenditures	-	-	-	-
Undesignated	134,952	1,062	9,680	1,857
Total Fund Balance	<u>134,952</u>	<u>1,062</u>	<u>9,680</u>	<u>1,857</u>
Total Liabilities and Fund Balance	<u>\$ 136,676</u>	<u>\$ 1,062</u>	<u>\$ 9,680</u>	<u>\$ 1,857</u>

Debt Service Funds				
Fire G.O. Bonds	TIFA Debt	TIFA City Hall/ Police Debt	Capital Projects Fund	Total
\$ 53,726	\$ 68,597	\$ 30,190	\$ 267,301	\$ 561,786
-	-	-	-	7,267
-	-	-	-	36
-	-	-	3,025	3,025
<u>\$ 53,726</u>	<u>\$ 68,597</u>	<u>\$ 30,190</u>	<u>\$ 270,326</u>	<u>\$ 572,114</u>
\$ -	\$ -	\$ -	\$ -	\$ 68
-	-	-	-	1,650
-	-	-	-	6
-	-	-	-	1,724
53,726	68,597	30,190	-	152,513
-	-	-	3,025	3,025
-	-	-	71,747	71,747
-	-	-	195,554	343,105
<u>53,726</u>	<u>68,597</u>	<u>30,190</u>	<u>270,326</u>	<u>570,390</u>
<u>\$ 53,726</u>	<u>\$ 68,597</u>	<u>\$ 30,190</u>	<u>\$ 270,326</u>	<u>\$ 572,114</u>

CITY OF KEEGO HARBOR
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
For the Year Ended June 30, 2006

	Special Revenue Funds			
	Local Street	Beautification	Police Dept. Community Events	Carillon
Revenues:				
Property Taxes	\$ -	\$ -	\$ -	\$ -
State	50,630	-	1,521	-
Interest	4,596	-	-	-
Other	1,780	705	8,728	-
Total Revenues	57,006	705	10,249	-
Expenditures:				
General Government	-	-	-	-
Public Safety	-	-	2,062	-
Public Works	86,973	653	-	-
Community Events	-	-	5,711	-
Recreation and Cultural	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest and Fees	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	86,973	653	7,773	-
Excess (Deficiency) of Revenues Over Expenditures	(29,967)	52	2,476	-
Other Financing Sources (Uses):				
Operating Transfers In	25,288	600	-	-
Operating Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	25,288	600	-	-
Net Change in Fund Balance	(4,679)	652	2,476	-
Fund Balance - July 1	139,631	410	7,204	1,857
Fund Balance - June 30	\$ 134,952	\$ 1,062	\$ 9,680	\$ 1,857

Debt Service Funds				
Fire G.O. Bonds	TIFA Debt	TIFA City Hall/ Police Debt	Capital Projects Fund	Total
\$ 51,229	\$ -	\$ -	\$ -	\$ 51,229
-	-	-	-	52,151
1,502	1,844	115	16,694	24,751
-	-	-	50	11,263
52,731	1,844	115	16,744	139,394
-	-	-	25,437	25,437
-	-	-	-	2,062
-	-	-	-	87,626
-	-	-	-	5,711
-	-	-	4,358	4,358
40,000	35,000	-	-	75,000
11,325	59,380	225	-	70,930
-	-	-	118,822	118,822
51,325	94,380	225	148,617	389,946
1,406	(92,536)	(110)	(131,873)	(250,552)
-	66,700	30,300	-	122,888
-	-	-	(160,000)	(160,000)
-	66,700	30,300	(160,000)	(37,112)
1,406	(25,836)	30,190	(291,873)	(287,664)
52,320	94,433	-	562,199	858,054
\$ 53,726	\$ 68,597	\$ 30,190	\$ 270,326	\$ 570,390

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November 7, 2006


Honorable Mayor and City Council
City of Keego Harbor
Oakland County, Michigan

In planning and performing our audit of the City of Keego Harbor for the year ended June 30, 2006, we have considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions in these areas. This letter does not affect our report dated September 20, 2006, on the financial statements of the City of Keego Harbor.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with the City's management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional studies or assist in their implementation.

Respectfully,



POST, SMYTHE, LUTZ and ZIEL LLP
Certified Public Accountants

City Hall/Police Department Financing

During fiscal year 2006, the City issued TIFA bonds in the amount of \$995,000 and also an installment loan to finance the construction of a new city hall/police department facility. Typically, the bond covenants on municipal bond issues require that substantially all of the bond proceeds be spent within three years of issuance of the bonds. As the City has not yet begun construction of the new facility, we recommend that the City contact their bond counsel to ensure that the City will not be in violation of any bond covenants.